Bills Asset Management

BAM MARKET NOTE

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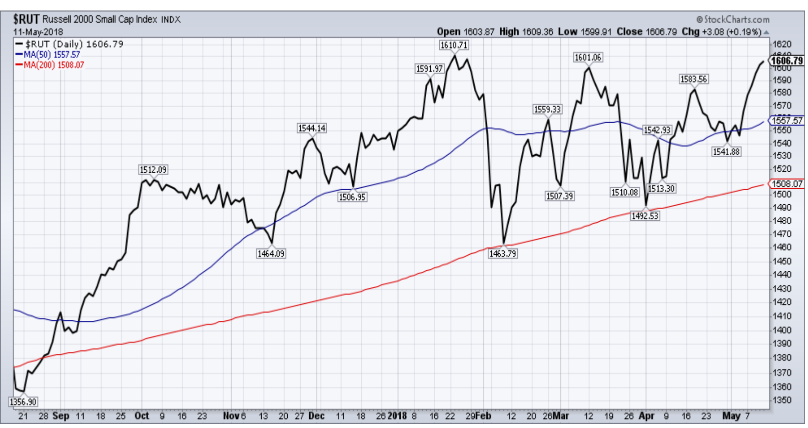
The S&P has been in a trading range since early March and remains embroiled in such. However, with this week's positive market, the index has broken the down trend line formed from the January highs. We aren't out of the woods yet but things look better this week than they did over the last few weeks. Next week will likely bring some consolidation of the recent gains. If all goes as planned, the next hurdle will be the late February/early March highs. However, first things first, the index will need to hold onto this weeks gains and avoid a downdraft below the 2700-2710 level.



While large caps like the S&P have been treading water in a wide trading range, the small cap Russell 2000 has surged and is a mere 4 points from its January high. On a relative basis, small caps have been leaders for the last several weeks. Now it appears that small caps are trying to lead this market higher. When small caps are leading and high yields are trending up, it provides a very favorable investing environment.

Our Point

Good geopolitical news combined with a goldilocks (not too hot and not too cold) interest rate decision last week provided the market with a spark. All of the major indices enjoyed very good weeks. The Dow has a string of 7 straight up days while the other indices are up 6 straight days. With gains around 3-4% for the week, it can only be classified as a good week! Coming out of a multi week consolidation it only looks better. There is still much work to be done as the large caps remain a ways from their January highs. However, small caps and technology shares have taken leadership which tilts the balance in favor of the bulls for now. High yields which had also been consolidated caught a bid this week and are inching up. Over the next few weeks you will likely hear a lot about sell in May and go away. While there is empirical evidence to support the rule broadly it is not a fail safe and there have actually been a number of good years when it paid to stay invested through this traditionally weaker period. We will have to see if this year is one of those times. In the meantime, we look at the charts and make our decisions on what the market is doing and not on what we or anyone else thinks it should be doing. We made a few changes this week – selling an underperforming fund and increasing our small cap holdings. For those unaware, Sunday is Mother's Day so make sure to appreciate all the mothers out there. Have a great weekend.